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ACTION EUR-25

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USMISSION NATO

DIA FOR AA-2 AND DI-5 IMMEDIATE

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E.O. 11652: GDS

TAGS: PINT, IT

SUBJECT: ITALIAN GOVERNMENT CRISIS

1. BEGIN SUMMARY.

AS PRESIDENT CONSULTATIONS CONTINUE PROTAGONISTS OF ITALY'S
36TH GOVERNMENTAL CRISIS ARE STANDING FIRM ON RESPECTIVE ECONOMIC
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POLICY LINES. IN EFFORT TO PRESERVE CENTER-LEFT COLLABORATION

AND BREAK POLICY IMPASSE, LEONE IS KNOWN TO BE CONSIDERING REFERRAL OF RUMOR'S RESIGNATION TO PARLIAMENT FOR DEBATE AND SUBSEQUENT CONFIDENCE VOTE. SHOULD HE NOT FOLLOW THIS COURSE, OR SHOULD ITS PURSUIT FAIL TO RESOLVE CRISIS, FURTHER EFFORTS TO REFORM CENTER-LEFT GOVERNMENT WILL UNDOUBTEDLY FOLLOW. AMONG LIKELY PREMIER DESIGNATES ARE RUMOR HIMSELF, PICCOLI, FANFANI AND MORO. CONCEIVABLE BUT NOT YET LIKELY ALTERNATIVE IS DISSOLUTION OF PARLIAMENT AND CALLING OF EARLY ELECTIONS, WHICH IN PRACTICE COULD NOT BE HELD UNTIL FALL. END SUMMARY.

2. CONSULTATIONS BY PRESIDENT LEONE CONTINUE TODAY, JUNE 12, AND ARE SCHEDULED TO END TOMORROW MORNING. INTRA-PARTY CONSULTATIONS TODAY INCLUDED MEETINGS OF THE CHRISTIAN DEMOCRAT, REPUBLICAN AND LIBERAL PARTY DIRECTORATES. AT THIS POINT IT APPEARS THAT THE MAIN PROTAGONISTS OF THE CRISIS, THE DC AND, PARTICULARLY, THE SOCIALISTS, ARE "HANGING TOUGH" IN SUPPORT OF THEIR RESPECTIVE ECONOMIC POLICY LINES. THE LABOR UNIONS HAVE ALSO MADE IT CLEAR THAT THEY WILL PRESS THEIR ECONOMIC DEMANDS ON ANY NEW GOVERNMENT, ALTHOUGH THE UNIONS INDICATE THEY WOULD FAVORABLY CONSIDER ANY SERIOUS GOVERNMENT PROPOSAL FOR AN ECONOMIC STABILIZATION PROGRAM WHICH WOULD EQUITABLY (IN THE UNION VIEW) DISTRIBUTE THE ECONOMIC AUSTERITY BURDEN AND AVOID SUBSTANTIAL UNEMPLOYMENT.

3. WELL-PLACED AND RELIABLE SOURCES TELL US THAT IN MEETINGS WITH SARAGAT LAST NIGHT AND WITH SOCIALIST DELEGATION THIS MORNING, PRESIDENT LEONE PROPOSED THAT RATHER THAN ACCEPTING RUMOR'S RESIGNATION HE WOULD ASK RUMOR TO REFER MATTER TO PARLIAMENT FOR DEBATE OF ISSUES DIVIDING GOVERNMENT WITH SUBSEQUENT VOTE OF EITHER CONFIDENCE OR NO CONFIDENCE. SUCH ACTION WOULD BE CONSISTENT WITH CONSTITUTIONAL CONCEPT THAT GOVERNMENTS REMAIN IN OFFICE UNTIL THEY LOSE CONFIDENCE

OF PARLIAMENT. (IT HAS BEEN COMMONPLACE FOR ITALIAN PRIME MINISTERS TO PERSONALLY RESIGN ONCE INSURMOUNTABLE CONTRASTS WITHIN THEIR GOVERNMENT BECOME APPARENT.) SOCIALISTS REJECTED THIS APPROACH, BUT ONE SOCIALIST SOURCE TELLS US THAT THERE IS CONCERN WITHIN PSI THAT LEONE MIGHT NONTHELESS ELECT THAT COURSE OF ACTION. THIS COULD PUT FULL BLAME ON SOCIALISTS FOR GOVERNMENT'S DOWNFALL IF PSI REFUSES TO COMPROMISE IN PARLIAMENT. SOURCE HINTED THAT RATHER THAN TAKE BLAME FOR WHAT COULD BE COUP DE GRACE TO ENTIRE CENTER-LEFT CONCEPT, PSI MIGHT WELL BE FORCED TO FIND SOME WAY OF CLIMBING

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DOWN FROM PRESENT INTRANSIGENCE.

4. ASSUMING SCENARIO DESCRIBED ABOVE DOES NOT DEVELOP, PRIME MINISTER DESIGNATE WOULD ALMOST CERTAINLY HAVE TO TRY TO REFORM THREE -
PARTY CENTER-LEFT. BOTH SOCIAL DEMOCRATS AND SOCIALISTS HAVE MADE CLEAR THAT IN PRESENT CIRCUMSTANCES THEY OPPOSE ENTRUSTING COUNTRY'S ECONOMIC FUTURE TO ALL-DC (MONOCOLORE) GOVERNMENT, AND HAVE STRESSED

THAT NEW COALITION MUST BE DESIGNED TO LAST WELL BEYOND THE FAST-APPROACHING SUMMER VACATION SEASON. AT SAME TIME, REPUBLICAN DIRECTORATE MORNING JUNE 12 DECLARED PRI WILL LEND PARLIAMENTARY SUPPORT TO ANY GOVERNMENT WHICH PLEDGES "COHERENT, RIGOROUS AND SEVERE" ECONOMIC PROGRAM, BUT WILL IN NO CASE PARTICIPATE IMMEDIATELY IN GOVERNMENT.

5. THE DC DIRECTORATE TODAY VOTED WITH THE ABSTENTIONS OF DONAT-CATTIN, BODRATO, VITTORINO COLOMBO (ALL FORZE NUOVE ADHERENTS) AND GALLONI (BASE), TO APPROVE THE PRESENTATION OF PARTY SECRETARY FANFANI OUTLINING THE DC RATIONALE FOR THE CRISIS, AND APPROVED A DOCUMENT (GALLONI ABSTAINING) CALLING FOR AN EFFORT, IN CONSULTATION WITH THE OTHER THREE CENTER-LEFT MAJORITY PARTIES, TO FORM A GOVERNMENT CAPABLE OF DEALING VIGOROUSLY WITH THE PRESENT ECONOMIC SITUATION. THE LEADERSHIP OF THE DC PARLIAMENTARY GROUPS IS EXPECTED TO MEET THIS EVENING TO CHOOSE A LIST OF THREE DC CANDIDATES FOR PRESENTATION TO PRESIDENT LEONE BY THE DC DELEGATION THURSDAY MORNING. DC SOURCES SPECULATE THAT LIKELY CANDIDATES FOR INCLUSION ON THE LIST ARE RUMOR, PICCOLI, AND FANFANI, ALTHOUGH THERE IS SOME SPECULATION THAT MORO MAY ULTIMATELY EMERGE AS CANDIDATE CONSIDERED BY DC TO BE BEST ABLE TO PUT THE CENTER-LEFT BACK TOGETHER AGAIN.

6. LURKING IN BACKGROUND, AND RAISED BY SUBSTANTIAL NUMBER OF OUR INTERLOCUTORS, IS PROSPECT THAT INABILITY TO PUT TOGETHER HARMONIOUS COALITION COULD FORCE PRESIDENT LEONE ONCE AGAIN TO DISSOLVE PARLIAMENT AND CALL EARLY ELECTIONS AS HE DID IN SPRING OF 1972. HOWEVER, CHRISTIAN DEMOCRATS ARE FEARFUL OF EARLY ELECTIONS WHICH IN WAKE OF THEIR REFERENDUM DEFEAT COULD PROVE COSTLY. SMALL LAY PARTIES (SOCIAL DEMOCRATS, LIBERALS AND REPUBLICANS) ARE ALSO ANXIOUS TO AVOID UNCERTAINTIES OF SUDDEN ELECTIONS IN TIME OF GRAVE ECONOMIC DISTRESS. SOCIALISTS, ON OTHER HAND, ARE CONFIDENT THAT THEY WOULD IMPROVE UPON THEIR 1972 SHOWING AND, ALTHOUGH NOT ACTIVELY

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SEEKING PARLIAMENT'S DISSOLUTION, ARE DISPOSED TO EXPLOIT FEAR OF IT TO GAIN MORE LEVERAGE FOR THEMSELVES NOW. UNDER COMPLEX ELECTORAL LAW, EARLY ELECTIONS WOULD BE HELD ROUGHLY TEN WEEKS AFTER PARLIAMENT'S DISSOLUTION. DISSOLUTION IS UNLIKELY TO OCCUR UNTIL ALL OTHER MEANS TO RESOLVE PRESENT SITUATION HAVE BEEN EXHAUSTED.

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